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UNCLAS SECTION 01 OF 03 TEGUCIGALPA 001912

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STATE PASS TO USAID, OPIC, EXIM, USTR
STATE PASS TO USED IDB, USED WB, USED IMF

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TAGS: ECON EFIN ETRD EINV EAIR ELTN PGOV PREL KPRV KTDB KPWR HO ENGR
SUBJECT: HONDURAN ECON HIGHLIGHTS: AUGUST 2003

Topics:

-Macro Economic Goals
-IMF/Brooke Sanctions
-Wood Industry: exportation
-Tourism Growth
-Standard Fruit Company: increased investment
-Remittances up in 2003
-Maquila Industry: Increased Growth
-USD Bank Deposits on the Rise
-Megatel and Celtel: collusion or duopoly
-Banana Sector: Independent Producers in Trouble
-Airport Carriers: More US Bound Flights

Macro Economic Goals

¶1. The GOH is running out of time to attain their goal of 3.2 percent economic growth for 2003, over 2002's growth of 2.5 percent. Goals proved difficult after unexpected high levels of bank liquidity and stagnant international prices of agricultural goods like coffee and bananas hindered the economy. High bank liquidity translates into low levels of investment, fewer purchased products and services, and reduced transactions, which, results in sluggish economic growth. Even though the 4 billion lempira (USD 231 million) excess in bank liquidity has caused interest rates to drop from an average of 29 to 22 percent, low demand for loans have kept liquidity high. The only positive offsets have been the increased USD 70 million investment in the Maquila industry and the rise in remittances.

IMF/Brooke Sanctions

¶2. The GOH continues to struggle to improve its fiscal situation, as required to reach an agreement with the IMF. GOH spending has increased from 2001 to 2002 by over 14 percent, reaching 18.557 billion lempira (USD 1.07 billion). To restrain uncontrollable government wages, a Civil Service Reform Law, which would change the salary of governmentally paid medical workers and teachers, is currently being considered. Controversial and disliked by government employees, the law will face added difficulty in passing since the working party lost the majority in the National Congress in July. If approved, the Civil Service Law would cut salaries by 700 million lempira (USD 40.46 million), just over 10 percent of total government wages.

¶3. Deferral of Paris Club debt service has turned to active status with the failure to reach an IMF agreement. Although a debt of USD 12,000 was repaid to the Department of Defense on July 15 , USD 1.73 million of overdue principal debt is still owed by September 3. Brooke Amendment Sanctions will be enacted against Honduras, ending DOD, DOS and USAID programs if the GOH fails to repay the 1.7 million by then. Cutting the USAID programs alone would yield losses of USD 13 million in FY03 and USD 45 million in FY04.

Wood Industry: Falling Exports

¶4. According to the Timber Association of Honduras, primary and secondary wood exports to the U.S. will be drastically diminished in 2003. Total annual raw wood exportation in past years has garnered USD 75 to 80 million for the wood industry, while this year exports will only reach USD 40 million. Similarly, furniture exports, are expected to fall from their normal USD 40 million

to a USD 25 to 30 million in 2003.

Tourism Growth

¶5. In July, the tourism sector recorded generating 24 percent more foreign currency than last year. According to the Secretary of Tourism, significant increases in business-oriented tourism have been seen in Tegucigalpa and San Pedro Sula. Recovering confidence in travel post 9/11 has also aided Honduras' tourism industry. Port calls at Roatan's new pier are up to visits 7 days a week by several major cruise lines as well.

Standard Fruit Company: Increased Investment

¶6. Standard Fruit Company, a subsidiary of Dole Food Company, will increase investment in banana and pineapple production by USD 14 million, intending to boost export revenue of these two products from USD 75 million in 2002 to USD 90 million in 2003. Standard Fruit currently directly employs 9,000 direct Honduran workers.

Remittances up in 2003

¶7. Central Bank data concludes that remittances from January to June 2003 have reached USD 348.2 million, up 15.5 percent from same period in 2002. The approximately 600 thousand Honduras who send remittances, are suspected to send a total of USD 700-800 million in 2003. According to a report from the Economic Commission for Latin America and the Caribbean, remittances are used to invest in small businesses, buy land, and improve homes.

Textile (Maquila) Industry: Increased Growth

¶8. The accelerated growth and success of the Maquila industry has drawn the attention of investors from both U.S. and Taiwan as profits of USD 730 million in 2002 are expected to rise to USD 800 million in 2003. Optimistic predictions continue for 2004 with goals of USD 880 million. In June, the Industry started hiring what it hopes will eventually be an additional 20,000 employees. Honduras was ranked 3rd in total amount of textile exportation to the United States, superceded by only Mexico and China. Honduras exported 268 square meters of textiles in the first quarter of 2003 up 21.3 percent from 2002's first quarter's 220 square meters. Although the textile industry is hopeful about the upcoming export advantages from CAFTA, it is doubtful Honduras will match China's growth rate of 94.2 percent.

USD Bank Deposits on the Rise

¶9. According to data collected by the Central Bank of Honduras, bank deposits in USD are on the rise with 33% of total Honduran bank deposits in 2002 up from 28% in 1999. Experts believe this may have a role in the economic stability of the lempira as inflation has dropped from 10.1 percent in 2000 to 8.1 percent in 2002. Bank officials are not surprised by heightened popularity of the dollar, when interest rates average 10 percent for lempira bank accounts, which, after accounting for inflation, leaves little real monetary growth. However, with USD 500 million in Honduran bank accounts, dollar interest rates are also on the decline.

Megatel and Celtel: Duopoly

¶10. In June 2003 Megatel received a licensing contract, at a cost of over USD 7 million, to become a cellular Band A service provider. Since then, Celtel and Megatel have joined as a duopoly to take advantage of Hondutel's 400 thousand unanswered requests for ground lines. Celtel, the previous cellular service provider backed by American and Honduran investors, issued 326,000 cellular contracts and per minute telephone costs have not dropped below .25 USD, the most expensive service in the region. Megatel, a U.S. company with Honduran and Swedish investment, plans on investing USD 50 million on labor, construction, installation, and personal contracts supplying an additional 200 jobs to the country.

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Banana Sector: Independent Producers in Trouble
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¶11. Independent banana produces are asking the Honduran government for financial help after poor climate conditions have caused 40 percent losses on fruit harvests. Accrued debt of 300 million lempira (USD 17.3 million), primarily loaned after hurricane Mitch, remains unpaid after independent banana farmers failed to reach their goal of exporting 10 million crates of bananas to the U.S. The new agriculture law, "Ley de Fortalecimiento Financiero del Sector Agriculture," passed in June 2003, grants 50 percent debt relief to agricultural producers, however this law does not pertain to the independent banana producers who currently employ 42,000 workers in Honduras.

Airport Carriers: More US Bound Flights

¶12. After finally receiving authorization to provide carrier service to El Salvador, Sol Air in June 2003 began flying its new route from Tegucigalpa to San Salvador to Miami and back at a fare of USD 198, round trip. El Salvador's granted permission to Sol Air expires March 30,
¶2004.

¶13. In June, TACA added 28 U.S. bound flights weekly, becoming the only flight carrier to provide service 3 times a day to Miami. To provide these additional flights 32 new planes were purchased from the European company, Airbus." The additional flights are only for the temporal season including June, July and part of August.

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